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LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4/2/08



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LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006

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INDEPENDENT AUDITORS' REPORT

Board of Directors
LSU System Research and Technology Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated statements of financial position of the LSU System Research and Technology Foundation (the Foundation) as of December 31, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the LSU System Research and Technology Foundation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 10, 2007

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 1,227,359	\$ 991,320
Accounts receivable - Louisiana Department of Economic Development	566,266	248,979
Accounts receivable - other	11,309	-
Property and equipment, net	15,448,395	11,151,710
Investment in partnership	8,895	5,528
Other assets	-	1,700
Total assets	\$ 17,262,224	\$ 12,399,237

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 579,083	\$ 282,910
Income tax payable	5,467	4,737
Due to the Louisiana Department of Economic Development	1,250,000	1,250,000
Total liabilities	1,834,550	1,537,647

NET ASSETS

Unrestricted net assets	15,427,674	10,861,590
Total net assets	15,427,674	10,861,590
 Total liabilities and net assets	 \$ 17,262,224	 \$ 12,399,237

The accompanying notes are an integral part of these financial statements.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>REVENUES:</u>		
Department of Economic Development - operations	\$ 2,286,564	\$ 1,706,920
Department of Economic Development - building	4,909,650	4,882,915
Department of Economic Development - regional director	287,134	-
Department of Commerce	-	579,110
In-kind contributions	-	4,500
Rental revenues	67,525	4,775
Other revenues	213,248	94
Total revenues	<u>7,764,121</u>	<u>7,178,314</u>
<u>EXPENSES:</u>		
Salaries and benefits	656,672	344,863
Legal fees	545	4,188
Professional fees	1,549,104	700,427
Advertising	56,163	8,304
Travel	11,935	11,259
Rent	-	4,500
Depreciation expense	533,218	94,192
Office expenses	172,182	8,585
Other expenses	218,218	68,276
Total expenses	<u>3,198,037</u>	<u>1,244,594</u>
<u>CHANGE IN NET ASSETS</u>	<u>4,566,084</u>	<u>5,933,720</u>
Net assets - beginning of the period	<u>10,861,590</u>	<u>4,927,870</u>
<u>NET ASSETS - END OF PERIOD</u>	<u>\$ 15,427,674</u>	<u>\$ 10,861,590</u>

The accompanying notes are an integral part of these financial statements.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 4,566,084	\$ 5,933,720
Depreciation expense	533,218	94,192
Loss from partnership investment	4,133	6,472
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease (increase) in accounts receivable	(328,596)	698,257
Decrease (increase) in other assets	1,700	(1,700)
Increase (decrease) in accounts payable	296,173	(623,573)
Increase (decrease) in income tax payable	730	4,737
Increase (decrease) in amounts due to the Department of Economic Development	-	579,110
Net cash provided by operating activities	<u>5,073,442</u>	<u>6,691,215</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases of property and equipment	(4,829,903)	(6,259,445)
Capital contributions to partnership	(7,500)	(12,000)
Net cash used in investing activities	<u>(4,837,403)</u>	<u>(6,271,445)</u>
Net increase in cash and cash equivalents	236,039	419,770
Cash and cash equivalents - beginning of period	<u>991,320</u>	<u>571,550</u>
Cash and cash equivalents - end of period	<u>\$ 1,227,359</u>	<u>\$ 991,320</u>

The accompanying notes are an integral part of these financial statements.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Foundation

The LSU System Research and Technology Foundation (the Foundation) is a non-profit corporation which was formed on July 3, 2002, and began operations on July 18, 2003. The Foundation was organized (1) to encourage, support, facilitate, foster, and manage research, technology, and start-up life sciences business emanating from the Louisiana State University System and other research institutions and facilities in Louisiana to enhance economic growth; (2) to coordinate and manage the transfer of intellectual property and other intangible property and rights derived from such research and technology to the marketplace; and (3) to pursue all other activities and actions contemplated by the foregoing.

The Louisiana Research and Technology Company, LLC (the Company) was organized as a for-profit company to maximize the opportunities of the Foundation and its investors. The Foundation is the sole member of the Company.

During the year ended December 31, 2005, the Foundation formed a for-profit subsidiary, the LAETC Management Company, LLC (the Management Company), to manage the operations of the Louisiana Emerging Technology Center. The Foundation is the sole member of the Management Company.

2. Summary of significant accounting policies

The Foundation conforms to the accounting principles generally accepted in the United States of America and the prevailing practices within the non-profit industry. A summary of significant accounting policies is as follows:

Consolidation

The consolidated financial statements include the accounts of the LSU System Research and Technology Foundation, the Louisiana Research and Technology Company, LLC and the LAETC Management Company, LLC. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Foundation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are stated at cost. Additions, renewals, and improvements that extend the life of these assets are capitalized. Replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets, which range from three to thirty-nine years.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gains or losses are recognized in income for that period.

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation did not have any temporarily restricted or permanently restricted net assets at December 31, 2006 or 2005.

Income taxes

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. As previously noted, the consolidated financial statements include the accounts of the Louisiana Research and Technology Company, LLC and the LAETC Management Company, LLC, for-profit entities. Accordingly, a provision for income taxes is included in the accompanying consolidated financial statements.

Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued)

Contributed services

The Foundation recognizes contribution revenue for certain services received at the estimated fair value of those services, provided those services create or enhance non-financial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation.

Donated materials and equipment

The Foundation occupied, at no charge, certain premises upon which their former office was located. The estimated fair rental value of the premises is reported as support and expense in the year in which the premises are used.

Statement of cash flows

For purposes of the cash flow presentation, the Foundation considers cash in operating bank accounts and cash on hand to be cash and cash equivalents.

Concentrations of credit risk

The Foundation maintains its cash in bank deposit accounts at one financial institution. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal. At December 31, 2006, cash in excess of FDIC insurance limits totalled approximately \$1,151,000.

3. Property and equipment

Property and equipment consisted of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Office equipment	\$ 1,120,581	\$ 555,180
Building and improvements	14,126,717	10,528,824
Construction in progress	<u>831,337</u>	<u>164,728</u>
	16,078,635	11,248,732
Less: accumulated depreciation	<u>(630,240)</u>	<u>(97,022)</u>
	<u>\$ 15,448,395</u>	<u>\$ 11,151,710</u>

Depreciation expense totaled \$533,218 and \$94,192 for the years ended December 31, 2006 and 2005, respectively.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Funding agreement with the Louisiana Department of Economic Development

The Foundation entered into a funding agreement with the Louisiana Department of Economic Development on April 11, 2003. In accordance with the terms of this agreement, the Department of Economic Development agreed to provide funding of \$750,000 to the Foundation to provide for early stage funding to research-based companies that seek to commercialize technology developed at Louisiana universities.

All of the payments to the Foundation are made upon the receipt from the Foundation and approval by the Louisiana Department of Economic Development of cost reports certifying that such expenses have been incurred and that the Foundation has provided matching funds of twenty-five percent of the expenses. All of the funds paid to the Foundation under this agreement are required to be converted into equity in the Louisiana Research and Technology Company, LLC.

The Foundation recognized revenues relating to this agreement of approximately \$11,700 and \$207,000 during the years ended December 31, 2006 and 2005, respectively.

5. Cooperative endeavor agreements with the Louisiana Department of Economic Development

The Foundation entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development (LDED) on March 31, 2003. In accordance with the terms of this agreement, the Department of Economic Development will reimburse the Foundation up to \$10,000,000 for costs incurred in connection with the planning, designing, and construction of the Louisiana Emerging Technology Center, a wet-lab business incubator. During the year ended December 31, 2005, this agreement was amended to increase the allowable reimbursable costs associated with the construction of the wet-lab business incubator an additional \$2,500,000. Through various amendments, the cooperative endeavor agreement was extended until June 30, 2007. The Foundation recognized revenues relating to this agreement of approximately \$4,909,000 and \$4,883,000 during the years ended December 31, 2006 and 2005, respectively.

On July 1, 2004, the Foundation entered into another cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with terms of this agreement, the Louisiana Department of Economic Development will provide up to \$880,000 to the Foundation in an attempt to facilitate and stimulate progress toward the accomplishment of the goals of the Foundation, including the operation of a wet-lab incubator. During the year ended December 31, 2005, this agreement was amended to increase the funding limit to \$1,519,548. The Foundation recognized revenues relating to this agreement of approximately \$133,000 and \$1,375,000 during the years ended December 31, 2006 and 2005, respectively.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Cooperative endeavor agreements with the Louisiana Department of Economic Development (continued)

Effective July 1, 2006, the Foundation entered into another cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with the terms of the agreement the Louisiana Department of Economic Development will provide up to \$1,872,000 to the Foundation to assist in providing regional economic development representation covering eight labor market areas of the State of Louisiana to seek out opportunities for the creation and enhancement of economic growth. The Foundation recognized revenues relating to this agreement of approximately \$287,000 during the year ended December 31, 2006.

During July of 2005, the LAETC Management Company, LLC entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with the terms of this agreement, the Department of Economic Development will provide funding up to \$1,182,715 to the Management Company to support the operation of the wet-lab incubator for a term of one year beginning July 1, 2005. The Management Company recognized revenues relating to this agreement of approximately \$1,058,000 and \$125,000 during the years ended December 31, 2006 and 2005, respectively.

During July of 2006, the LAETC Management Company, LLC entered into a cooperative endeavor agreement with the Louisiana Department of Economic Development. In accordance with the terms of this agreement, the Department of Economic Development will provide funding up to \$2,222,294 to the Management Company to support the operation of the wet lab incubator for a term of one year beginning July 1, 2006. The Management Company recognized revenues relating to this agreement of approximately \$1,084,000 during the year ended December 31, 2006.

6. Commitments

During the year ended December 31, 2006, the Foundation entered into a contract with a construction contractor for the build out of a section of the wet-lab incubator. The contract totalled approximately \$3,490,000, and the remaining commitment was approximately \$1,031,000 at December 31, 2006.

LSU SYSTEM RESEARCH AND TECHNOLOGY FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Leases

In August of 2003, the Foundation entered into a lease agreement with the Louisiana State University and Agriculture and Mechanical College (the University) for approximately 6 acres of property located on the campus of the University. The lease is for a term of fifty years and requires annual rental payments of \$100. Since the fair value of this land lease cannot be determined with reasonable certainty, it is not included in the accompanying financial statements. In addition, unless the University and the Foundation enter into a written agreement providing otherwise, upon termination of the lease agreement by lapse of term, the Louisiana Emerging Technology Center building and improvements shall be transferred to the University by the Foundation or demolished at the Foundation's expense at the sole discretion of the University.

The Management Company has entered into various operating lease agreements with the tenants of the Louisiana Emerging Technology Center. Each of these lease agreements are on a month-to-month bases and require a 30- day written notice for termination. The monthly rental payments range from \$312 to \$1,700, and rental revenues totalled approximately \$67,500 and \$4,800 for the years ended December 31, 2006 and 2005, respectively.

8. Investment in General Partnership

As discussed in Note 1, the Foundation is the sole member of the Louisiana Research and Technology Company, LLC (the Company), which is the general partner of the Louisiana Fund I General Partner, LP (the General Partnership). Due to the fact that the limited partners in the General Partnership have substantive participating rights, the Foundation is not consolidating the General Partnership in its financial statements and will record its investment in the General Partnership using the equity method of accounting. As of December 31, 2006, the Foundation had contributed \$19,500 of its \$75,000 commitment.

The General Partnership holds a 1% interest and is the general partner for Louisiana Fund I, LP (the Fund).



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTER BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
LSU System Research and Technology Foundation
Baton Rouge, Louisiana

We have audited the accompanying consolidated financial statements of the LSU System Research and Technology Foundation as of and for the year ended December 31, 2006, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement to the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not the objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the LSU System Research and Technology Foundation and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

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Baton Rouge, Louisiana
December 10, 2007